Statement of
Senator Susan M. Collins

"Wall Street and the Financial Crisis: The Role of High Risk Home Loans"

Committee on Homeland Security and Governmental Affairs
April 13, 2010

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Mr. Chairman, thank you for your leadership in undertaking this in-depth investigation into the root causes of the financial crisis that began in 2008 and left our nation in the throes of the Great Recession.

Chairman Levin and Ranking Member Coburn spent many months delving into disfunctional facets of our financial markets, which drove us into turmoil so damaging that it nearly produced a second "Great Depression."

While many experts have pointed to the role played by the housing market bubble in sparking this near-catastrophe, this investigation reveals in detail exactly how that bubble began and was then inflated. Investors speculating on a rising housing market certainly played a role; however, PSI's investigation indicates that from the top to bottom within the mortgage industry, some people who knew better turned a blind eye to the gathering storm. Too many showed little commitment to effective risk-management of laons. Worse, some were even willing to commit fraud to originate and securititze more and more high-risk residential loans.

The witnesses today will tell the story of Washington Mutual. It was the country's largest savings and loan association until 2008, when it traded that stunning superlative for a stunning collapse, becoming the largest bank failure in U.S. history. It may be tempting to think of the WaMu case as an exception to the rule or an unfortunate anomaly, but the thrift's problems reflects faults that were rife throughout the mortgage business. It is a case study in the financial meltdown, which offered shoddy securitized mortgages that were bought and sold on Wall Street, ultimately leading to an implosion that nearly caused our economy to collapse.

In hindsight, it seems obvious that every aspect of the financial markets was operating under the faulty assumption that prices in the housing market could only go up and never go down, that somehow the red-hot real estate market would defy the cycles of the free market, which is akin to defying the laws of gravity. What goes up, didn't necessarily have to ever come down.

As long as prices continued their upward path, it simply didn't matter that a borrower was unlikely to be able to shoulder his or her mortgage. The increasing cost of the housing market would buoy up the difference.

Looking back, we now realize we needed a regulator who could look across the breadth of the economy and spot risky asset bubbles in advance -- before investment in a single aspect of our economy came to dominate and control the vast majority of people's financial investments.

In order to address this problem, I introduced the Financial Stabilization and Reform Act of 2009 a year ago. This bill created a council of existing regulators, such as the FDIC, the SEC and the CFTC, to act as a systemic risk monitor for our financial markets. This concept remains valid today as we look to ways to prevent our economy from ever again reaching such a state of crisis.

Indeed, this concept has been incorporated into the financial reform bill that the Banking Committee reported earlier this year. That bill takes on many other aspects of financial regulation as well, but in this one area, we agree on a key aspect of reform.

The series of hearings that this Subcommittee intends to hold will help inform Congress and the American people of the need for additional reforms to our financial system. I look forward to these hearings and look forward to the testimony from our witnesses today.

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